

**Trinity
Resources
Ltd.**

Bob



Operating and Financial Highlights

Operating Highlights	1980	Year ended December 31	
		1979	1978
Daily Production at year end			
Oil & Condensate (Bbls Per Day)	1,272	168	147
Gas (Mcf Per Day)	3,520	1,363	455
Annual Sales			
Oil and Condensate (Bbls)	221,560	56,349	53,098
Gas (Mcf)	750,276	341,225	163,973
Producing Wells			
Gross	217	118	64
Net	47.9	27.0	21.6
Reserves (Proven and Probable)			
Oil and Condensate (Bbls)	2,418,222	1,116,145	811,756
Gas (MMcf)	3,624	2,858	935
Undeveloped Lands			
Gross (acres)	480,771*	348,557	335,226
Net (acres)	245,683*	98,792	90,134

*Including U.S. Federal leases applied for in January 1981.

Financial Highlights	1980	Year ended December 31	
		1979	1978
Oil & Gas Sales	\$9,672,514	\$1,726,599	\$857,241
Net Income (Loss)	3,442,532	(902,685)	72,081
Per Share	0.58	(0.20)	0.02
Working Capital Derived from Operations	5,642,496	850,623	656,664
Per Share	0.87	0.18	0.16
Total Shares Outstanding	6,471,266	4,729,264	4,188,520

1980 Stock Trading History

	High	Low	Close	Volume
1st Quarter	\$12¾	\$7¾	\$9¼	2,708,472
2nd Quarter	15	9	14¼	1,729,985
3rd Quarter	17½	14	15½	1,929,503
4th Quarter	25⅞	14⅞	21½	1,303,369

Securities of Trinity Resources Ltd. are traded on the Toronto Stock Exchange under the symbol TRT, and an over-the-counter market is being maintained by several securities firms in the U.S.

Trinity's Business

Trinity Resources engages in hydrocarbon exploration and production in areas of the United States where existing production or exploration trends indicate the strong possibility of additional oil and gas

reserves. The company also is positioned by its financial strength to purchase oil and gas properties when engineering studies and economic projections offer the potential for profit in line with Trinity's investment. The company plans to continue participating in drilling ventures, with a suitable mix of high risk wildcat and lower risk production replacement projects.

Trinity's Managers

Bruce E. Ellison, named Vice President of Trinity Resources Ltd. in mid-1980, has been the company's Exploration Manager since 1978. His experience includes over 12 years of oil exploration and production work.

Kathryn C. Tatum, a graduate of the University of Houston, joined Trinity in 1978 and was named Controller of the company in early 1980, with responsibility for finance and accounting.

Gerald F. Bemberg, after several years of working in oil and gas land administration for independent and major companies, became Trinity's Land Manager in June 1980.

James D. McMahan, a petroleum engineering graduate of Texas A & M with 12 years of engineering and operating experience, became Trinity's Production Manager in April 1980.

For Trinity Resources 1980 was a year of achievement. During the year, as compared with 1979, your company made these operational and financial advances:

- Oil and gas production increased 194 percent to 1500 equivalent B/D at year-end;
- Reserves of oil and gas increased 220 percent to 2,800,000 equivalent barrels;
- Total revenues from oil and gas sales increased 460 percent to \$9.7 million;
- Working capital derived from operations increased 563 percent to \$5.6 million;
- Net income, a 20-cents per share loss in 1979, rose in 1980 to \$3.44 million or 58-cents per share, and
- Undeveloped acreage increased 38 percent to 480,000 gross acres. (including applications on U.S. Federal lands.)

Trinity has established itself as a strong independent oil company positioned to continue its development as cash flow from available reserves is prudently expended to develop new oil and gas fields through active drilling operations and exploratory land acquisitions.

The large cash flow currently being generated is largely the result of earlier

decisions to acquire substantial leasehold acreage in the path of Austin Chalk exploration and development in Southeast Texas. Trinity now has a total of 53,000 gross acres in four counties along this trend where the industry has drilled over 600 wells in 1980.

Our exploration program of the future will continue to emphasize land as the foundation on which your company's prosperity will be built. We will continue to pursue opportunities to increase our inventory of land that offers potential for oil and gas discoveries, even as we move our existing acreage through the exploration and hopefully, development cycles.

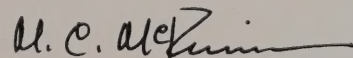
By carefully weighing the risk-reward ratios involved in each of our commitments, we are confident that further success and continuing growth will accrue to Trinity Resources and its shareholders.

This confidence is reinforced daily in working with Trinity's staff of 18 professional, technical, and support personnel — dedicated people who demonstrate their creative and innovative abilities in land, geology, production and finances. We are exceedingly proud of our team.

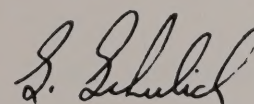
For 1981, a total capital expenditure of \$15 million is planned, with about half of this amount scheduled for exploration and half slated

for development projects. We expect to fund this capital program largely from cash flow, which we are projecting to be about \$14 million for the year from existing wells and development programs. This estimate doesn't include any effect from new discoveries in 1981. In addition to cash flow and working capital, we currently have a bank accommodation available of up to \$36 million.

To the Trinity staff, the Board of Directors and our shareholders, we wish to express our personal thanks for support through this period of growth. We have momentum operating in our favor — momentum which will make possible Trinity's continued growth in the 1980's.



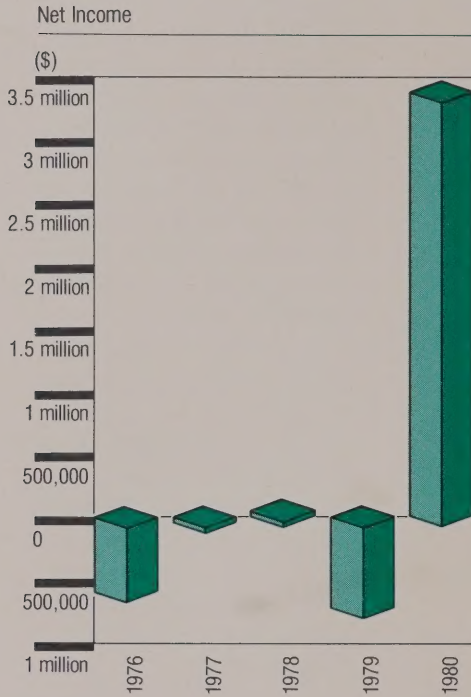
M. C. McKinnon
President and Chief
Executive Officer



S. Schulich
Chairman of the Board

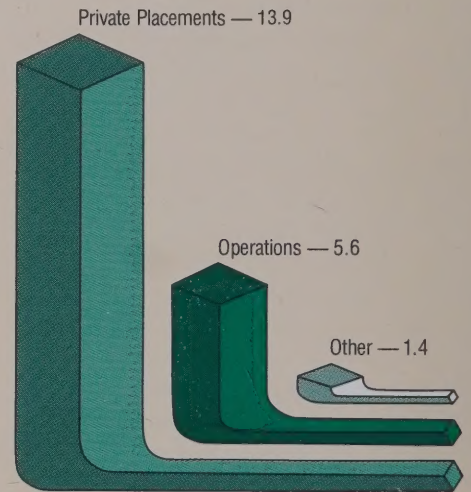
March 30, 1981

Earnings



Trinity's net income for 1980 totaled \$3,442,532 or \$.58 a share, compared with a loss in 1979 of \$902,685 or \$.20 a share loss. Revenues for 1980 came to \$10,132,998, compared with 1979 revenues of \$2,057,642.

Sources of Working Capital (\$ millions)



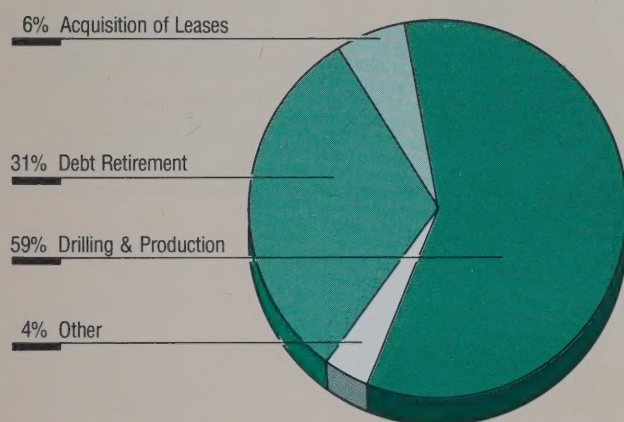
Sources of Working Capital

Working capital generated from operations amounted to \$5,642,496 in 1980, an increase of 563 percent over 1979. These internally-generated funds were supplemented by two private placements made during the year. Trinity retired long term debt of \$4,000,000 in 1980 through the conversion of subordinated debentures. Working capital at the end of 1980 was \$3,314,610, an increase of 118 percent over year-end 1979.

Uses of Working Capital

Capital expenditures in 1980 amounted to \$13,150,975, compared with \$9,274,541 in 1979. Of this amount 85 percent was used for drilling and production, and 8 percent was used for land acquisition. The remainder was used for miscellaneous capital expenditures.

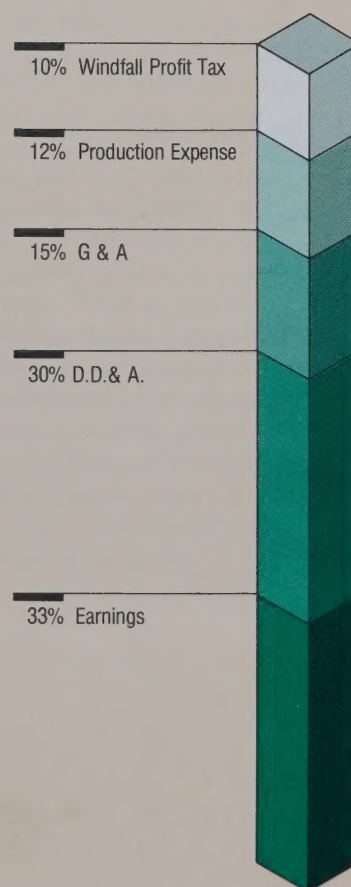
Uses of Working Capital



Distribution of the Revenue Dollar

Trinity's average revenue dollar was used in the following manner: Earnings amounted to 33 cents. Production expenses amounted to 12 cents. Windfall Profit Tax consumed 10 cents. Depletion, depreciation and amortization required 30 cents, while general administration expenses required 15 cents.

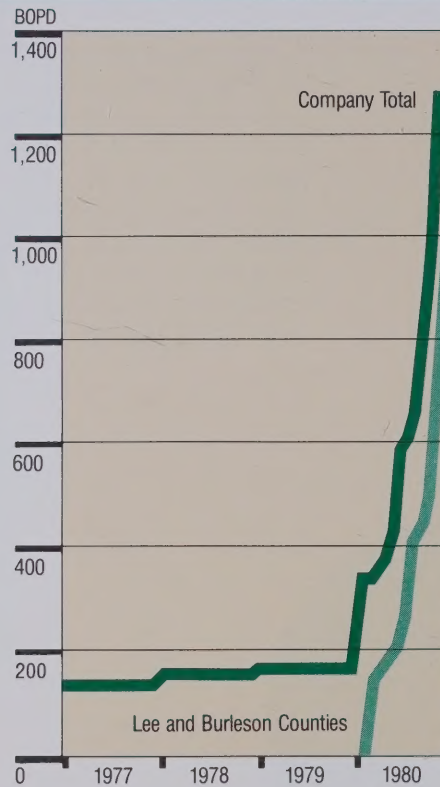
Distribution of Revenue Dollars



Production

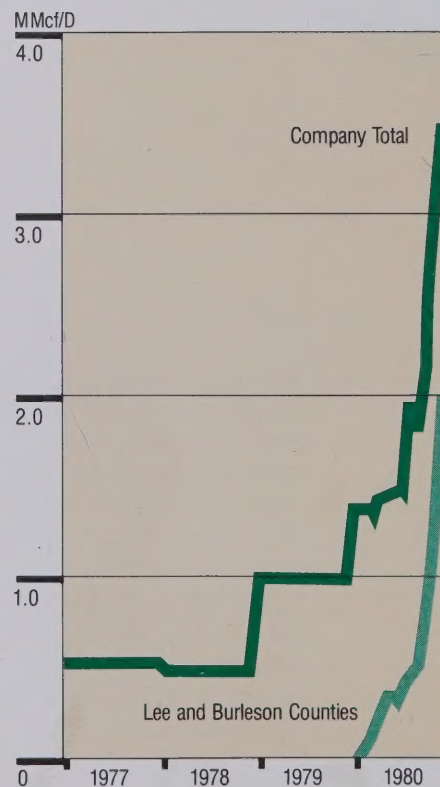
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Net Oil Production



Trinity substantially increased its production of oil and gas in 1980. The major portion of this dramatic increase is attributed to the phenomenal success of the Lee and Burleson counties development program. Additional contributions to the increase were made by the deep Wilcox gas/condensate wells in Live Oak County, Texas, the deep Springer gas/condensate well in Grady County, Oklahoma, and the continuing production and development of the company's other producing properties.

Net Gas Production





The company had an interest in 80 wells in the Lee and Burleson area at year-end. Of the 80 wells, 66 were direct interest wells and 14 were farmout wells drilled at no cost to Trinity.

The 66 direct wells consisted of 58 producing, four being completed, three drilling and one abandoned due to mechanical problems.

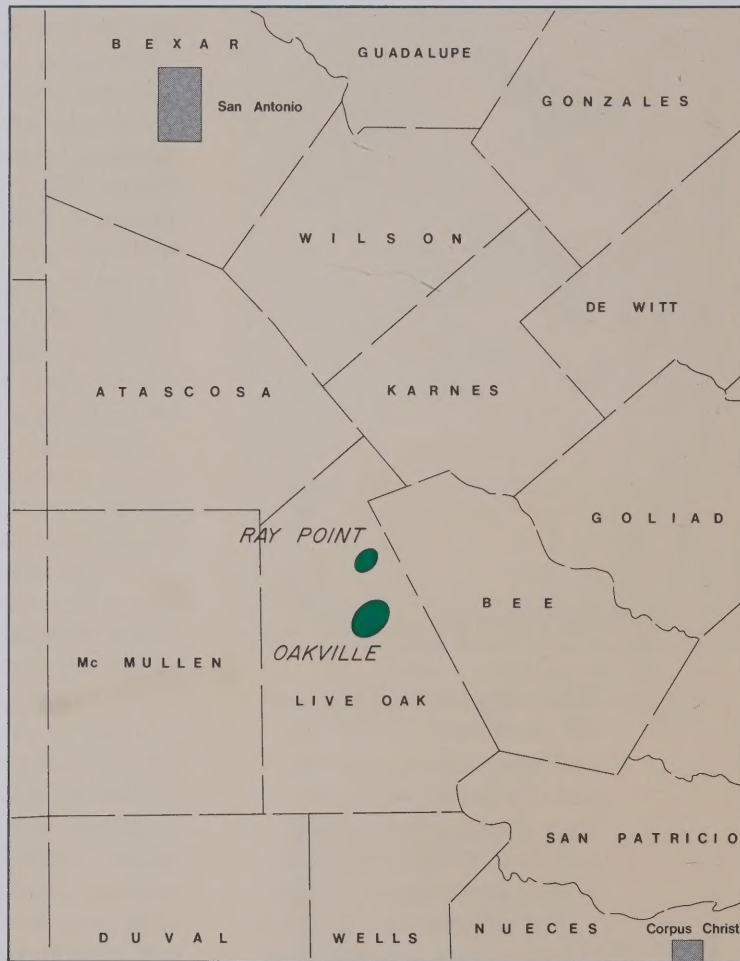
The 58 producing wells had a combined December, 1980 oil rate of 7,213 BOPD. The net rate to Trinity was 1,102 BOPD after royalties. Recent completions have increased Trinity's net production to more than 1,600 BOPD from this area.

Trinity currently receives U.S. \$29.00 per barrel for the

produced oil in the Lee and Burleson area after state and "windfall profit" taxes.

The aggressive direct interest development of the Austin Chalk formation in the Lee and Burleson area will continue through 1981. It is anticipated that at least 36 additional wells will be drilled during the year on these joint interest properties.

During the year Trinity and its partners in the Lee and Burleson project determined there was a need to enter into farmout agreements on some of the leases rather than lose them upon expiration of the primary term. Trinity generally retained an overriding royalty interest in the wells drilled and retained offset locations which would enable Trinity to drill direct interest wells offsetting good farmout wells. At year-end, of 14 farmout wells required under the agreements, 11 were producing, one was being completed, one was drilling and one was abandoned. It is estimated that at least 85 percent of our 33,000 acres will be held by production as a result of the current drilling and farmout program.

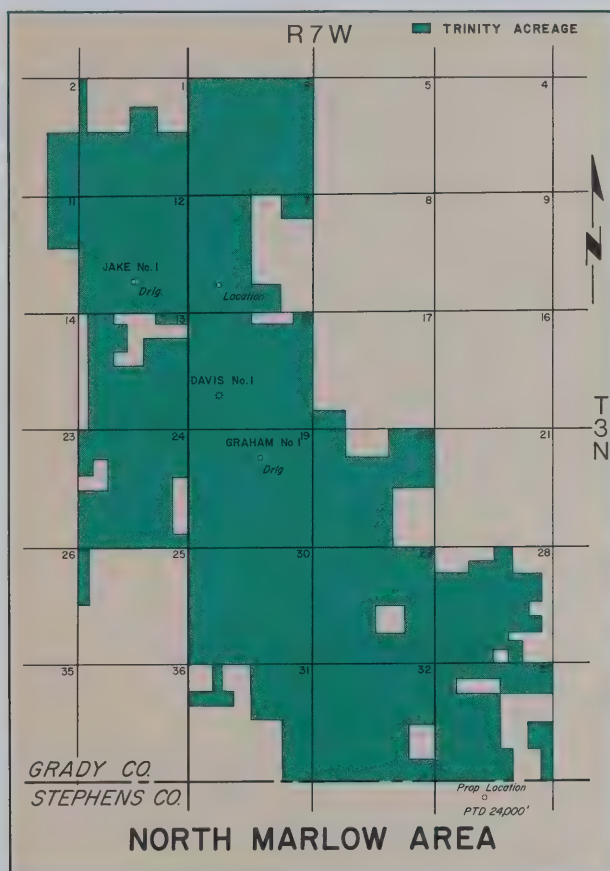


The company participated (9.72 percent working interest) in the drilling of a discovery well completed in the deep Wilcox in the Oakville Field. The well was placed on production in July, 1980, and in December production rates were 2,940 Mcf of gas and 88 barrels of condensate per day.

A stepout well was drilled and completed in the same horizon and is presently producing 800 Mcf of gas and 21 barrels of condensate per day.

Additional drilling on the 2,500-acre lease is anticipated for 1981.

Grady County, Oklahoma



The Davis No. 1-18 well in the North Marlow area, Grady County, Oklahoma was placed on production in November, 1980. The well produced at a rate of 5,000 Mcf of gas and 37 barrels of condensate per day from the Springer formation. Trinity's net working interest is 4.65 percent and we are currently receiving in excess of U.S. \$7.00 per Mcf for this gas.

Two additional wells are drilling on Trinity's acreage block. One is to test the Bromide formation at 24,000 feet and the other is to be completed in the Springer Formation.

Two other Springer wells are expected to spud shortly on the company's acreage.

Additional development in this area is anticipated for 1981 and beyond.

Todd and Bluit Secondary Recovery

In addition to these development programs, work is continuing on the formation of operating and unit agreements as well as the regulatory requirements for the Todd and Bluit Field waterfloods in southeast New Mexico. Completion of this administrative work on the Todd Field is expected during the first half of 1981,

with the Bluit Field being completed later in the year. Delays in regulatory compliance work have held up initiation of these two projects, but Trinity remains optimistic about their long-term potential.

Exploration

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1980 Drilling

	Oil	Gas	Dry	Drilling at Year-end	Total
Gross Wells	73	2	3	9	87
Net Wells	12	0.2	0.6	1.5	14.3
Farm-Out Wells	17	0	11	1	29

Trinity's accelerated growth in 1980 brought about changes in two vital aspects of your company's operations.

First, in order to maximize our profit potential in future exploration ventures, the company now is prepared and financially able to take larger working

interest positions in exploration prospects.

Second, staffing of professional and support personnel has been expanded to meet the continuing demands of increased activity by Trinity in virtually every phase of its operations.

These changes, initiated in 1980, will have their greatest impact on the company's operations in 1981 and the years beyond.

Utah

Several potential Tertiary hydrocarbon reservoirs have been identified from seismic data on Trinity's Six Mile Ranch prospect in Tooele County, Utah. The seismic survey, employing sophisti-

cated three-dimensional technology, also indicates the possibility of a Paleozoic structure under this 8,800-acre prospect. Trinity anticipates drilling activity on this acreage before the end of 1981. Ten miles north of this prospect Anschutz Corp. of Denver is currently drilling a 20,000 foot Paleozoic test.

East Texas

An 11,000-foot well is drilling ahead to evaluate Woodbine, Rodessa, Cotton Valley and Smackover objectives beneath a 6,200-acre Franklin County, Texas

prospect in which Trinity has a 25 percent working interest. Success in this venture could dramatically increase Trinity's reserves. Seismic studies are underway in other locations in East Texas to define similar multi-formation areas in which Trinity can participate.

Trinity has a 50 percent working interest in a well now being drilled in Fayette County, Texas as an offset to the Rose Unit No. 1, a well in which Trinity owns a convertible 50 percent working interest. This well is currently being completed in the Austin Chalk after testing gas in the Edwards Formation. Trinity anticipates testing of four additional seismically-identified locations on this 1,200-acre lease block. Four possible hydrocarbon traps have been seismically identified on Trinity's 700-acre Walhalla Prospect elsewhere in Fayette County. This prospect is currently being offered to industry on a drill-to-earn basis.

In adjacent Washington County, seismic studies on Trinity's 18,000-net-acre leasehold indicate three drillable prospects. Exploratory objectives under these lands include Sligo through Austin Chalk carbonates and sands of the Subclarks-ville, Olmos and Wilcox.

In Burleson County, negotiations continue on unit formation for drilling of an 18,000-foot Cotton Valley test. Since Trinity's acreage in this area is held by production, we anticipate a successful conclusion to these negotiations soon.

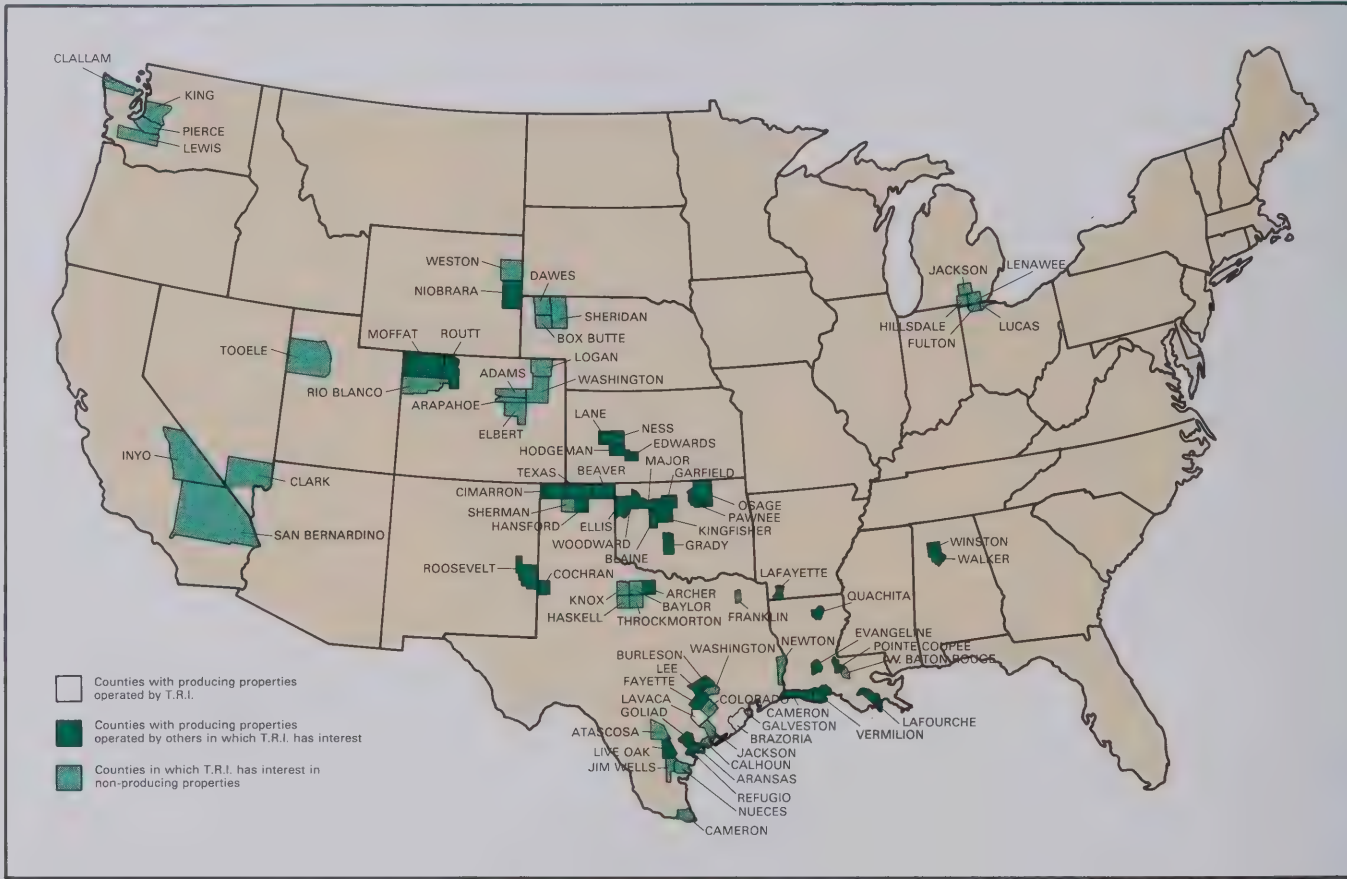
Gulf Coast

In order to enhance our future exploration activities in the Gulf Coast area, Trinity has concluded an agreement with a highly-successful two-man team of explorationists to generate prospects exclusively for the company. This arrangement permits Trinity to keep its prospect evaluation costs low in a geographic area where substantial reserve additions can be found.

Trinity currently is assembling deep rights under the Ray Point Field in Live Oak County, Texas where the company already is a working interest owner (see page 8). Once this lease block is completed, Trinity plans to deepen an existing well to below 8,000 feet and

to conduct seismic work for confirmation of a Sligo structure below 15,000 feet. This effort represents a continuing commitment by Trinity to periodically re-evaluate its existing producing properties and, wherever possible, upgrade them.

During 1981, Trinity plans to begin regional surface and sub-surface studies in Louisiana similar to studies already underway in Texas. To augment the work in this and other areas being carried out by Craig Moore, our Chief Geophysicist, Tom McQuillin has recently joined our staff as Chief Geologist.



Trinity Resources made excellent progress in 1980 in enlarging its inventory of acreage available for current and future exploration.

At the end of 1980, Trinity had an interest in mineral leases covering 363,000 gross acres located mainly in Colorado, Kansas, Louisiana, Michigan, Nebraska, Oklahoma, Texas, Utah and Wyoming. Federal applications covering 117,771 acres in California, Nevada and Washington were filed in early 1981.

As of December 31, 1980 Trinity's net working interest acreage increased to 127,912 acres, a 24 percent gain over the 1979 year-end total. Significant additions were made in Nebraska with 10,219 net acres, in Texas with 4,910 net acres, and in Utah, in Trinity's initial leasing activity in that state, with 8,827 net acres. Most of the property acquired in these three states was 100 percent Trinity acreage.

A number of significant developments with respect to the company's undeveloped lands occurred during 1980 and early 1981.

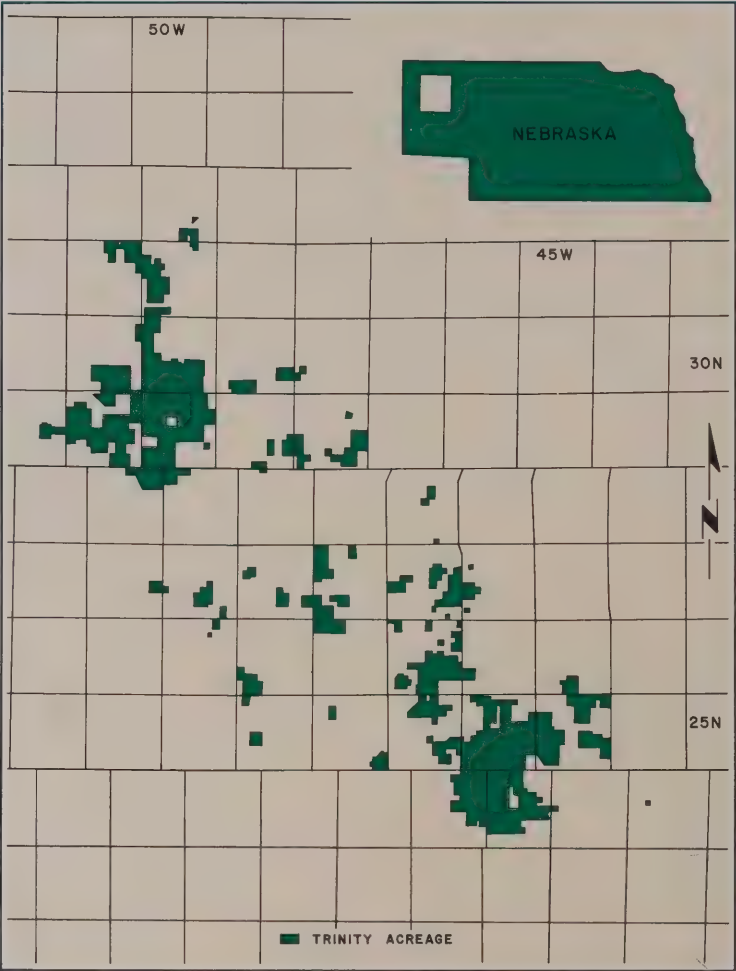
Western States Federal Leases



As a means of expanding Trinity's acreage base for future exploration, your Board of Directors has endorsed management's recommendation to aggressively move into leasing of onshore Federal acreage, mainly in the 12 western states which have significant inventories of Federal

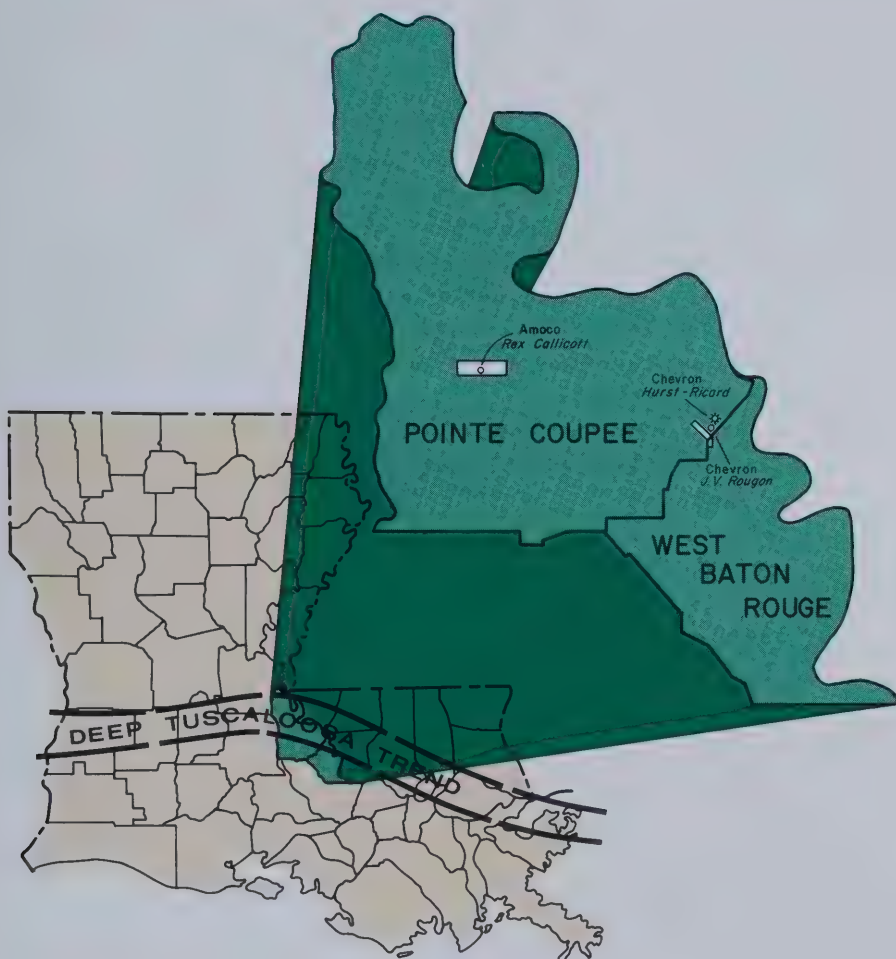
lands. Judicious acquisition of this type of acreage at this time will help Trinity maintain its present growth potential as competition for available U.S. acreage increases.

As the initial step in this plan, Trinity recently filed applications covering 17,174 acres in California, 66,282 acres in Nevada and 34,315 acres in Washington. A substantial portion of the 1981 budget allocated for land acquisition will be spent in this manner.



In the fourth quarter of 1980, Trinity successfully negotiated an exploration agreement covering approximately 150,000 acres under long-term lease to Trinity and its partners in Box Butte, Dawes and Sheridan Counties, Nebraska. Trinity has a 28.7 percent interest in 140,000 acres and a 100 percent interest in 10,000 acres within the play.

The operator has designated the initial drillsite called for in the agreement, and is now required to drill at least one test well during 1981 to maintain the agreement in force. Most of the leases within this acreage block are in force until 1988, affording ample time for development of the property if exploration efforts are successful.



Two Tuscaloosa trend properties in Louisiana were acquired by Trinity in 1980, both of which are involved with successful wells drilled by major companies.

Profit Island, located in Pointe Coupee and West Baton Rouge parishes, is a single lease covering 182.7 acres situated between the Profit Island and False River Tuscaloosa fields. Trinity has a net 25 percent interest in this lease, giving the company 45.68 net acres. Part of the lease will be pooled with the Chevron No. 1 Hurst-Ricard recent discovery well, and the remainder will be within two other Tuscaloosa sand units, one of which includes the location of the Chevron No. 1 J. V. Rougon well presently drilling in the False River field.

The second property, East Ravenswood, is a royalty interest acquired in August from a Natchez, Mississippi operator. Trinity's interest is 51 net royalty acres under the 2,500-acre Rex Callicott lease in Pointe Coupee Parish, location of Amoco No. 1 Rex Callicott well. Initial reports on this well are very favorable for Tuscaloosa production between 19,000 and 21,000 feet. Trinity will have a royalty interest in any unit formed around the well.

Consolidated Balance Sheet

Trinity Resources Ltd. and Subsidiaries

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Assets	1980	December 31 1979
Current assets		
Cash	\$ 632,223	\$ 336,788
Investments in short-term deposits	3,370,340	1,772,145
Trade receivables and accrued interest income	3,458,543	531,563
Inventory, at cost	97,295	55,978
Prepaid expenses and other assets	102,967	23,849
Total current assets	7,661,368	2,720,323
Property and equipment , at cost, less accumulated depreciation, depletion and amortization (Note 2)	20,787,330	11,037,621
Deferred financing costs (net of \$9,025 amortization)	—	77,372
	<u>\$28,448,698</u>	<u>\$13,835,316</u>

Liabilities and Shareholders' Equity	1980	Year ended December 31 1979
Current liabilities		
Current maturities of long-term debt (Note 3)	\$ 293,462	\$ 660,089
Accounts payable and accrued liabilities	4,053,296	536,668
Total current liabilities	4,346,758	1,196,757
Deferred taxes payable (Note 5)	185,000	—
Long-term debt due after one year (Note 3)	—	5,995,410
Total liabilities	4,531,758	7,192,167
Shareholders' equity		
Common stock (Note 4)	24,117,959	10,386,700
Contributed surplus	122,500	22,500
Deficit	(323,519)	(3,766,051)
Total shareholders' equity	23,916,940	6,643,149
	<u>\$28,448,698</u>	<u>\$13,835,316</u>

Approved by the board:



M. C. McKinnon
Director



S. Schulich
Director

Consolidated Statement of Income (Loss) and Deficit

Trinity Resources Ltd. and Subsidiaries

		Year ended December 31	
		1980	1979
Revenues			
	Oil and gas	\$ 9,672,514	\$1,726,599
	Interest income	460,484	331,043
	Foreign exchange gain (loss)	208,528	(4,077)
		10,341,526	2,053,565
Expenses			
	Operating	1,258,477	541,302
	Depreciation, depletion and amortization (Note 1)	3,070,814	1,753,308
	Interest	205,305	224,699
	General and administrative expense	1,169,738	436,941
	Windfall profit tax	1,009,660	—
		6,713,994	2,956,250
Income (loss) before taxes and extraordinary item		3,627,532	(902,685)
Income tax expense			
	Deferred taxes	185,000	—
	Tax effect of loss carryforward	1,055,850	—
		1,240,850	—
Income (loss) before extraordinary item		2,386,682	(902,685)
Extraordinary item — realization of operating loss carryforward		1,055,850	—
Net income (loss)		3,442,532	(902,685)
Deficit			
	Balance at beginning of year	(3,766,051)	(2,863,366)
	Balance at end of year	(\$ 323,519)	(\$3,766,051)
Earnings (loss) per share:			
	Income (loss) before extraordinary item	<u>\$.41</u>	
	Net income (loss)	<u>\$.58</u>	<u>(\$.20)</u>

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The accompanying notes are an integral part of these financial statements.

Consolidated Statement of Changes in Financial Position

Trinity Resources Ltd. and Subsidiaries

Year ended December 31
1980 1979

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Financial resources were provided by

Operations:		
Income (loss) before extraordinary item	\$2,386,682	(\$ 902,685)
Income charges not requiring an outlay of funds:		
Deferred income tax expense	185,000	—
Depreciation, depletion and amortization	3,070,814	1,753,308
Working capital from operations	5,642,496	850,623
Working capital provided by extraordinary item:		
Tax benefit resulting from realization of operating loss carryforward	1,055,850	—
Proceeds from sale of:		
Common stock	9,611,605	—
Common stock warrants	100,000	—
Oil and gas properties	330,452	—
Increase in common stock upon conversion of subordinated debentures	3,922,628	—
Proceeds from exercise of warrants	175,000	—
Proceeds from exercise of common stock options	22,026	33,809
Proceeds from long-term debt	—	6,462,670
Collection of note receivable from officer	—	189,426
Value ascribed to 529,412 shares of common stock issued in acquisition of oil and gas properties	—	2,318,825
	20,860,057	9,855,353

Financial resources were used for

Additions to property and equipment	13,150,975	9,274,541
Reduction of long-term debt attributable to conversion of subordinated debentures, net of deferred financing costs	3,922,628	—
Reduction of long-term notes payable	1,995,410	704,876
Deferred financing costs of debentures	—	86,397
	19,069,013	10,065,814

Increase (decrease) in working capital

\$1,791,044 (\$ 210,461)

Note 1 — Summary of Significant Accounting Policies

Principles of Consolidation and Currency Translation

The consolidated financial statements include the accounts of Trinity Resources Ltd. and its wholly-owned subsidiaries, Trinity Resources, Inc. and Carmil, Inc. All significant intercompany transactions have been eliminated in consolidation.

The accounts of Trinity Resources, Inc., and Carmil, Inc., United States subsidiaries, have been translated into Canadian dollars on the following basis:

- Monetary assets and liabilities (cash, investments in short-term deposits, trade receivables and accrued interest, current liabilities and long-term debt) are translated at year end rates.
- Nonmonetary assets and liabilities (inventory, property and equipment, prepaid expenses and other assets) are translated

at rates in effect on the date the transactions occurred (historical rates).

- Most revenues and expenses are translated using the average exchange rate for the period, except for depletion, depreciation and amortization, which relate to nonmonetary assets and are translated at historical rates.
- The resulting gains and losses are reflected immediately in income.

Oil and gas properties

The Company follows the full cost method of accounting for oil and gas operations, the Company's one dominant industry segment, whereby the land acquisition costs, geological and geophysical expenditures, carrying charges of nonproducing properties and costs of drilling both productive and nonproductive wells are capitalized to the extent that such costs do not

exceed the estimated value of the Company's oil and gas reserves.

These accumulated costs are depleted using the unit-of-production method based on proven reserves of oil and gas, as estimated by independent consultants. In calculating depletion, natural gas and natural gas liquids reserves and production are converted to equivalent barrels of crude oil based on the relative net sales value of each product.

Costs associated with a major secondary recovery project under development are accumulated in a separate cost center which will not be subject to amortization until the development activities are complete at which time the costs will be depleted using the unit-of-production method.

No gains or losses are recognized upon the sale or disposition of properties except in circumstances which result in a significant disposition of reserves.

Note 2 — Property and Equipment

Property and equipment at cost using the full cost method of accounting:

	1980	December 31 1979
Oil and natural gas leases and rights including exploration and development thereon	\$23,170,592	\$13,162,943
Production and other equipment	4,213,266	1,428,966
Furniture and fixtures	51,968	23,394
	<u>27,435,826</u>	<u>14,615,303</u>
Less — accumulated depletion, depreciation and amortization	<u>(6,648,496)</u>	<u>(3,577,682)</u>
	<u>\$20,787,330</u>	<u>\$11,037,621</u>

Costs associated with a major secondary recovery project under development at December 31, 1980 and 1979 were \$955,152 and \$781,299, respectively.

Accumulated depletion was

\$5,668,468 at December 31, 1980 and \$3,088,984 at December 31, 1979. The provisions for the years then ended were \$2,579,484 and \$1,559,889, respectively.

Accumulated depreciation was

\$980,028 at December 31, 1980 and \$488,698 at December 31, 1979. The provisions for the years then ended were \$491,330 and \$184,384, respectively.

Note 3 — Long-Term Debt

At December 31, 1980 and 1979, long-term debt comprised:

	1980	December 31 1979
Series A and Series B 6% convertible subordinated debentures due March 1986 (Note 4)	—	\$4,000,000
Property loan — repayable in equal monthly installments through January 1985, bearing interest at prime plus 1½% and secured by mortgage on certain oil and gas producing properties	—	2,462,670(1)
Production loan — repayable in monthly installments equal to 90% of monthly production of certain oil and gas producing properties by which it is secured and bearing interest at prime plus 2%	\$ 45,725(1)	176,692(1)
Installment note — repayable in equal monthly installments through December 1983, bearing interest at 11% and secured by certain office equipment	3,664(1)	4,410(1)
Borrowings under bank line of credit — repayable on demand and bearing interest at prime plus 1% and secured by a portion of the Company's oil and gas properties and a negative pledge on remaining properties	244,073(1)	11,727(1)
	<u>293,462</u>	<u>6,655,499</u>
Less — Current portion	<u>(293,462)</u>	<u>(660,089)</u>
	<u>\$ —</u>	<u>\$5,995,410</u>

The Company's line of credit permits maximum borrowings of \$7,738,900. The line carries an annual commitment fee of ½ of 1% on the undrawn portion (see Note 7).

(1) These loans stated in Canadian dollars are repayable in United States dollars.

Note 4 — Common Stock

The transactions in common stock are shown below:	Number of Shares	Amount
Balance December 31, 1978	4,188,520	\$ 8,034,066
Shares issued for purchase of oil and gas properties	529,412	2,318,825
Exercise of employee stock options	11,332	33,809
Balance December 31, 1979	4,729,264	10,386,700
Shares issued on conversion of Series A and Series B 6% convertible subordinated debentures	800,000	3,922,628
Exercise of employee stock options	7,002	22,026
Exercise of warrants	35,000	175,000
Shares issued in private placements	900,000	9,611,605
Balance December 31, 1980	<u>6,471,266</u>	<u>\$24,117,959</u>

As of December 31, 1980, 10,000,000 shares with no par or nominal value were authorized. The Company issued 900,000

common shares in 1980 under private placements authorized by the Board of Directors in January and August, 1980.

In January, 1979, as approved by the Board of Directors, the Company obtained all of the outstanding stock of Carmil, Inc. for

529,412 shares of common stock. The sole asset of Carmil, Inc. at date of acquisition was a rever-

sionary interest in certain oil and gas properties. Accordingly, the value ascribed to the common

shares issued has been reflected as oil and gas properties in these financial statements.

Common stock warrants:

The Company has the following warrants outstanding at December 31, 1980:

Issue Date	Expiration Date	Total Shares Issuable Upon Exercise	Exercise Price
March 15, 1979	March 15, 1981	145,000	\$5.00
November 15, 1979	March 15, 1981	70,000	\$5.00
January 31, 1980	January 31, 1982	300,000	\$9.00
August 27, 1980	March 31, 1982	275,000	\$20.00

The warrants are exercisable at any time until expiration. These warrants were issued in conjunction with the Series A

and Series B 6% convertible subordinated debentures and with private placements made during 1980. These warrants are non-

transferable. As of March 15, 1981, all warrants which would have expired on that date had been exercised.

Common stock purchase options and agreements:

Effective June 30, 1980 the Company entered into agreements with four employees which require that the Company issue 40,000 shares of common stock for sale to the employees at prices ranging from \$8.78 to \$14.62 per share. Funds for the purchases will be loaned to the employees by the

Company. The agreements specify that loans will be non-interest bearing and that the loans must be repaid within five years from the agreement date. As of December 31, 1980 the Company had issued no shares under the terms of the agreements.

Except as noted in the preceding paragraph, the options were

granted to officers and employees at exercise prices equal to the fair market value of the shares at date of grant. The options expire five years from date of grant. The Company had the following stock options outstanding at December 31, 1980:

Grant Date	Number of Options	Option Price
December 10, 1978	15,000	\$3.00
June 30, 1980	40,000	\$8.78-\$14.62
August 1, 1980	6,500	\$14.62

The effects of warrants and options outstanding on the calculation of earnings per share were not dilutive and accordingly fully diluted earnings per share are not presented in the accompanying statement of income (loss) and deficit.

Note 5 - Income Taxes

The Company's operations are conducted primarily in the United States and accordingly are subject to U.S. income taxes. No income taxes were provided in 1979 because the Company had a

net loss from both Canadian and U.S. operations. A loss from Canadian operations was also incurred in 1980.

The provision for income taxes in 1980 is less than the

amount which would have been expected if it were assumed that the reported pre-tax earnings were subject to the U.S. federal statutory income tax rate due to the following:

	Amount	Percent of Pre-tax Earnings
Computed "expected" income taxes	\$1,668,665	46.0
Increase (decrease) in income taxes resulting from:		
Loss from Canadian operations	50,880	1.4
Foreign currency translation	(130,973)	(3.6)
Investment tax credit	(325,211)	(9.0)
Other	(22,511)	(.6)
Income tax expense	<u>\$1,240,850</u>	<u>34.2</u>

Income tax expense in 1980 has been largely offset by \$1,055,850 of benefit arising from realization of operating loss carryforwards generated in prior years

which has been reflected as an extraordinary item in the accompanying statement of income (loss) and deficit. At December 31, 1980, the cumulative net

operating loss carryforwards for financial and tax reporting purposes are as follows:

	Financial Reporting Purposes	Tax Purposes
Canadian	\$ 388,203	\$ 380,313
United States (U.S. dollars)	—	5,815,882

The net operating loss carryforwards for tax purposes expire as follows:

December 31	United States (U.S. dollars)	Canada
1981	—	\$ 49,094
1982	—	44,164
1983	\$ 197,023	14,876
1984	297,442	161,570
1985	545,105	110,609
1986	1,537,840	—
1987	3,238,472	—

In addition to the net operating loss carryforward, the Company has a capital loss carryforward expiring in 1982 of approximately \$238,800 which can only be offset against capital gains. The Com-

pany also has approximately \$278,100 of unused investment tax credits expiring at various times through 1987 and approximately \$1,409,700 in depletion expense carryforwards as a result

of limitations imposed by the Tax Reduction Act of 1975. There is no time limit on the depletion expense carryforward.

Note 6 — Directors' and Senior Officers' Remuneration

Remuneration to directors and senior officers (including the five highest paid employees) of the Company for the years ended

December 31, 1980 and 1979 amounted to \$424,766 and \$202,177, respectively.

Effective July 15, 1977 the Company entered into an agreement with its president to provide deferred compensation based

on increases in the market value of the Company's common stock. On February 10, 1982 the Company is required to commence funding an amount equivalent to the difference between \$1.00 per share and the average trading

price on a recognized Canadian stock exchange for the 22 days then ended with respect to 46,786 shares. Funding is required in three equal annual installments on February 10, 1982, 1983 and 1984 together with interest at 5% on the unpaid balance. The differ-

ence between market value of 46,786 shares and \$1.00 per share as of December 31, 1980 and 1979 was \$959,113 and \$421,074, respectively. The Company has not accrued any compensation expense in connection with this arrangement; however,

the amount of compensation which would have been accrued as of December 31, 1980 based on the president's expected period of employment is not material to the financial position or results of operations of the Company.

Note 7 — Subsequent Event:

Effective March 30, 1981 the Company's bank line of credit described in Note 3 was in-

creased to permit maximum borrowings under a master loan note of \$35,718,000 with a cur-

rent limitation of \$14,287,000. All other terms of the line remain unchanged.

Auditors' Report

**Price
Waterhouse & Co.**
Chartered Accountants

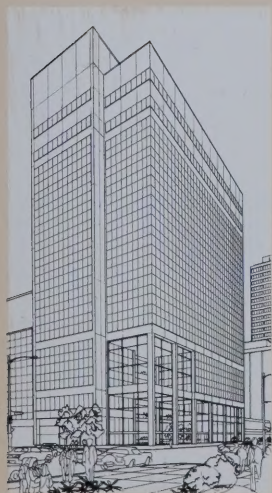
To the Shareholders of Trinity Resources Ltd.

We have examined the consolidated balance sheet of Trinity Resources Ltd. as at December 31, 1980 and the consolidated statements of income (loss) and deficit and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of the Company as at December 31, 1980 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Calgary, Alberta
March 17, 1981 (except as to
Note 7 which is as of March 30, 1981)

Price Waterhouse & Co.



Trinity Resources has relocated its Executive and Operating Headquarters to new offices in the Ten Ten Lamar Building, a new 20-story atrium office tower in downtown Houston.

The move to new quarters, necessitated by staff growth, improves efficiency and allows future growth.

Shareholders and other friends of the company are invited to visit these new quarters and meet Trinity's people.

Directors, Officers and Managers

Seymour Schulich	Chairman of the Board, Director
M. C. McKinnon	President, Chief Executive Officer and Director
S. W. Ingram	Secretary and Director
J. C. Ebbels	Director
B. E. Ellison	Vice President and Exploration Manager
Kathryn C. Tatum	Controller
Robert Lachner	Assistant Controller
Gerald F. Bemberg	Land Manager
James D. McMahan	Production Manager
Craig E. Moore	Chief Geophysicist
Tom A. McQuillin	Chief Geologist
H. J. Juksar	Assistant Secretary
Alan Grieve	Director, Trinity Resources, Inc.
Milburn E. Nutt	Director, Trinity Resources, Inc.
Gurston Rosenfeld	Director, Trinity Resources, Inc.

Bankers

Fannin Bank, Houston, Texas
 Capital National Bank, Houston, Texas
 The Royal Bank of Canada

Legal Counsel

Vinson & Elkins, Houston, Texas
 McLaws & Co., Calgary, Alberta
 Smith, Lyons, Torrance, Stevenson & Mayer, Toronto, Ontario

Reserves and Reservoir Engineers

Ryder Scott Company, Petroleum Engineers
 Houston, Texas

Auditors

Price Waterhouse & Co.
 Houston, Texas
 Calgary, Alberta

Annual Meeting

The Annual Meeting of Shareholders will be held at 4 p.m., May 27, 1981 in the Dominion Ballroom, Sheraton Centre Hotel, 123 Queen Street, West, Toronto, Ontario.

Executive and Operating Offices	905 Ten Ten Lamar Building 1010 Lamar Avenue Houston, Texas 77002 (713) 654-9207
Canadian Offices	6th Floor, 407 Eighth Avenue, S.W. Calgary, Alberta T2P 1E6
Subsidiary Companies	Trinity Resources, Inc. Carmil, Inc.
Transfer Agent	The Canada Trust Company 110 Yonge Street Toronto, Ontario M5C 1T4

